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January 9, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: Written Ex Parte Communication: Access Charge Reform
CC Docket No. 96-262

Dear Mr. Caton:

On November 26, J. Manning Lee, Vice President Regulatory Affairs, sent the attached letter to Regina M. Keeney, Chief - Common Carrier Bureau regarding Teleport Communications Group's recommendations for access charge reform. Subsequently, on December 24, the Commission opened the above-referenced proceeding addressing the same issues discussed in TCG's November 26 letter. Please include the enclosed letter and attachment ("ABC's of Access Charge Reform") in the formal docket record. An original and two copies of this letter are being submitted in accordance with Sec. 1.1206(a)(1) of the Commission's rules.

Thank you very much for your assistance in this matter.

Sincerely,

Judith Herrman

Judith E. Herrman
Manager, Federal Regulatory Affairs

cc: Regina Keeney
Jim Schlichting
Jane Jackson
Richard Lerner

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November 26, 1996

Regina M. Keeney, Esq.
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Access Charge Reform

Dear Ms. Keeney:

Teleport Communications Group Inc. (TCG) would like to share its initial views on changing the switched access rules. The attached paper, entitled *"ABC's of Access Charge Reform"* provides TCG's perspective on the choices that the Commission must make in looking at its switched access rules.

One point deserves special mention. While there is certainly a need to revise the switched access rules in general, the Commission is faced with a separate obligation to promptly revise its treatment of tandem switching and the residual interconnection charge, under the July 1996 Court of Appeals decision in the CompTel case. TCG encourages the FCC to undertake a separate and focused effort on correcting that aspect of its rules, independently (and faster) than its broader reform efforts.

Should you have any questions, please call me at 718-355-2671, or Judith Herrman of TCG's Washington office at 202-739-0035. Thank you.

Sincerely,

J. Manning Lee
Vice President, Regulatory Affairs

cc:
Ms. Jane Jackson
Mr. A. Richard Metzger
Mr. James Schlichting

ABC's of Access Charge Reform

TCG believes that Access Charge Reform can be simple if three fundamental principles are followed in the process of developing new Access Charge policies. TCG's "ABCs of Access Charge Reform" are:

A is for Addressable.

Access Charges must be addressable by competition for consumers to have choice, and for the Commission to have confidence that prices are being driven to fair economic costs. Addressable in this context means that all access charges should be based on services, functions or facilities for which the customer has (or reasonably could have) the choice of a competitor's services.

Access Charge reform should not be an excuse to give incumbent local exchange carriers a guarantee that their revenues will not go down as a result of competition. Proposals for recovery of access charges through methods that are unaffected by competition will burden competitors and customers with supporting excess ILEC costs, and act as an inhibition on the development of competition. Such policies also remove any incentive for the ILEC to operate more effectively, since they will recover the same revenues whether they keep their customers or lose them.

B is for Based on Costs.

Access Charges must be based on economic costs. The Commission has, in a different context, specified Total Element Long Run Incremental Cost ("TELRIC") as a useful standard for measuring costs, and TCG believes that TELRIC would be useful as a floor for the setting of prices for various switched access services. ILECs should be given the flexibility to set prices within a range bounded on the lower end by TELRIC and on the upper end by Part 69, FDC type costs. This will permit a more gradual adjustment to new costing principles in access charges, and will allow competition to "compete away" excess costs from the access marketplace. This will allow for a "flash cut" to new access charge policies while leaving in the hands of the market the degree to which these prices must decline to satisfy customer and market expectations.

C is for Competition.

The best Access Charge reform is a healthy competitive market. Prices based on market prices, rather than regulatory rules, are more likely to lead to appropriate results.

The Commission has already had experience with the effectiveness of competition as a means of access charge reform. The Commission's Special Access prices have been reduced over time, not by regulatory micro-management of prices, but by the effects of competition.

While competition for Special Access is as yet limited both geographically and in scope of services, it has nonetheless led over time to substantial reductions in DS3 and DS1 prices, and substantial improvements in DS3 and DS1 quality, whether measured in terms of installation time, repair intervals, or geographic availability. The same pro-consumer results can be obtained in the larger switched access marketplace by creating an environment where competition can be effective, and where competitors have access to the same revenues streams as the incumbent. For competition to be effective in influencing incumbent LEC prices, however, competitors must be protected from anti-competitive pricing, and must receive fairly priced interconnection services from incumbents, delivered at acceptable levels of quality.

By establishing an environment where competitors have a fair opportunity to compete against the ILEC, the Commission can rely on competition to drive prices to reasonable levels. By contrast, micro-management of access costs has led to situations in which competition is frustrated and customers have been denied an opportunity to utilize alternative facilities. A good example of this is the FCC's policies which institutionalized a systematic underpricing of tandem switching services for many years. Not surprisingly, very little access tandem competition (if any) can be observed in the marketplace, even though this is an area where competition would otherwise have been feasible. The United States Court of Appeals several months ago ordered the Commission to promptly correct these shortcomings, and TCG believes that these changes should be undertaken immediately, and need not await completion of broad access reform.

TCG's simple ABCs provide sound guidance to the Commission about how it should reform access charges. The charts on the following pages provide TCG's specific recommendations on the types of changes the Commission should consider for existing switched access elements.

TCG RECOMMENDATIONS FOR ACCESS CHARGE REFORM			
Rate Element	***Current Access Charge Treatment***	***TCG Access Charge Reform Recommendation***	***Explanation***
Local Transport Elements			
Entrance Facility	Flat rated DS1/DS3 charges, based on Special Access Channel Termination charges	These rates should not be affected significantly by access charge reform	The FCC's Local Transport Restructure helped make these prices competitive, and Special Access competition by companies like TCG helps push these rates to more sensible economic costs. Thus no change in the FCC's policies is needed. Competition will continue to push ILECs to deliver low cost, high quality service, although the effectiveness of such competition is dependent in part on fair collocation policies.
Dedicated Transport	Flat rated DS1/DS3 charges, based on Special Access Channel Mileage charges.	Same as Entrance Facility	
Tandem Switching	Rate is a per minute charge, originally set equal to 20% of tandem switching revenue requirement.	The current 20% limit on cost recovery must be eliminated, and existing price cap rates should be reset based on costs. Rates should to be set between TELRIC and Part 69 type costs, at the ILEC's option. No further recovery of tandem switching costs through transitional rates or other rates should be allowed. The Commission should immediately act to require that tandem switching rates be set to recover their costs, without waiting for the completion of total access charge reform.	CompTel v. FCC already declared that tandem switching rates are below cost and must be fixed promptly. TCG recommends that the FCC do so separately from broader access charge reform. TCG's proposal satisfies the Court's mandate, and is consistent with broader access charge reform, which seeks cost-based rates. Competition for tandem switching can be allowed to "compete" these rates down to economic TELRIC costs where carriers elect to set them higher.

TCG RECOMMENDATIONS FOR ACCESS CHARGE REFORM			
Rate Element	***Current Access Charge Treatment***	***TCG Access Charge Reform Recommendation***	***Explanation***
Tandem Transport (Common Transport)	Rates vary by minute and per mile -- usually a per minute termination rate and a per minute per mile rate. Can be billed from the IXC location to the ultimate end office, or from the Tandem to ultimate end office. Common Transport rates are tied to Special Access charges.	Common Transport should only be offered from the tandem to the ultimate end office. Connections from the IXC to the tandem should only be offered under dedicated transport rates, since these are dedicated (not shared) facilities.	Common transport should no longer be offered from the IXC location to the ultimate end office. Connections from IXCs to Access Tandems are not "common transport" facilities -- they are dedicated to the use of only one carrier, just like entrance facilities and dedicated transport. Offering these facilities as "shared transport" is not cost based and harms the development of competition for these facilities. Connections from the IXC to the tandem must be charged at Special Access rates to be consistent with the nature of the costs.
Local Switching, Local Loop and RIC Charges			
Local Switching Charge (End Office Switching)	Per minute charge based on Part 69 costs of local switching.	Rates should be set at LEC's discretion between TELRIC and Part 69 type costs. Competition for local switching can be allowed to "compete" these rates down to economic TELRIC costs where carriers elect to set them higher.	Over time, local (end office) switching rates can be competed down to TELRIC levels. By allowing ILECs to charge rates between TELRIC and Part 69 levels, the Commission does not mandate an immediate loss of revenues to the ILEC, and provides a window within which the ILEC can compete.

TCG RECOMMENDATIONS FOR ACCESS CHARGE REFORM			
Rate Element	***Current Access Charge Treatment***	***TCG Access Charge Reform Recommendation***	***Explanation***
Carrier Common Line Charge	Per minute charge based on portion of costs of local loops, also includes certain subsidy amounts.	The portion of the CCL now used to fund universal service costs should be recovered separately through the universal service mechanism. The remainder of the CCL should be capped on a per-line basis and collected directly from IXCs, through a combination of flat per-line charges based on Feature Group D presubscribed lines, and per minute charges .for non-presubscribed (dial-around) traffic. The amount of CCL costs to be recovered from the flat rate presubscribed charges versus the per minute charge should be based on the relative proportion that presubscribed traffic bears to non-presubscribed traffic. The per-presubscribed line charge would not apply to unbundled loops.	TCG recommends that the largest portion of these costs be recovered through a flat, monthly per-presubscribed line charge collected from the IXC to which a line is presubscribed. This should reduce the incentive for uneconomic bypass. This charge would also be subject to CLEC competition. Because many interstate calls are completed to parties other than the IXC to whom the line is presubscribed, an alternative recovery method is needed to collect a fair contribution for those non-presubscribed calls. While a flat rate recovery of those costs would perhaps be more economically attractive, TCG is unable to identify a fair and easily implementable means of doing so. Accordingly, recovery of these costs based on non-presubscribed usage appears to be the best means to address this issue. Since non-presubscription calling is discretionary (and transitory) end user calling, applying a per-minute CCL charge to such calls should not introduce a significant risk of uneconomic bypass.

TCG RECOMMENDATIONS FOR ACCESS CHARGE REFORM			
Rate Element	***Current Access Charge Treatment***	***TCG Access Charge Reform Recommendation***	***Explanation***
Residual Inter-connection Charge	Usage based charge recovered from all users of local switching. Charge recovers 80% of tandem switching charges with the remainder consisting of other local transport costs not directly recovered through direct local transport charges.	The RIC should be reduced by tandem switching costs, with remainder capped and phased out over a limited period of time, not to exceed three years. Remaining costs also must be recovered in a manner that allows them to be addressable through competition, and which recovers these costs from those that cause them. These costs are not related in any way to local switching services and should not be collected from a charge based on local switching. Nor does TCG believe that these charges should be recovered on a bulk billed basis calculated on relative market share, since that insulates the ILEC from competition. TCG believes that these charges should be recovered based on a uniform percentage surcharge on all transport services.	The Court of Appeals in the Comptel case has required that the FCC promptly fix its RIC charge. TCG believes that the FCC should immediately and separately act to address the RIC charge. Because the RIC charge does not include any end office costs, recovering it at the end office artificially and uneconomically increases the costs of local switching. It has also allowed ILECs to recover local transport costs even where carriers like TCG provide all of the local transport. Once tandem switching costs are removed, all the costs that remain are associated with local transport and should be recovered from those users. TCG also believes that the Commission should put in place a definite time for these RIC costs to be removed as a "subsidy" amount .
Subscriber Line Charge	A flat monthly charge collected from all end users. The SLC is capped at $6 per month for multi-line business users and $3.50 per month for residential and single line business users. Discounts to the SLC are offered for certain residential customers in need of financial assistance.	TCG does not, at this time, advocate any changes in residential or single line business SLC or in the relief provided to eligible residential customers. TCG would, however, advocate a phased increase in the ceiling price for multi line business users of $1 per year, to a maximum of $15 per line per month. The SLC should not apply to unbundled loops, provided that the full interstate costs of the loop are recovered from purchasers of the unbundled loop.	The SLC is cost causative, since the costs it recovers are non-traffic sensitive. TCG therefore supports continuation of the SLC. While residential SLC charges do not generally recover the full interstate line cost for their users, to avoid impact on small users TCG does not recommend changes in those rates. TCG does not, however, believe that the line costs for multi-line business users should be subsidized by other users, which is what is happening in all states where the interstate line cost for multi-line users is in excess of $6 per month. TCG therefore recommends a gradual increase in the SLC for multi-line business users. This will lead to more cost causative recovery, and will reduce the amount of line costs that must be recovered from other sources.

TCG RECOMMENDATIONS FOR ACCESS CHARGE REFORM			
Rate Element	***Current Access Charge Treatment***	***TCG Access Charge Reform Recommendation***	***Explanation***
Other Charges	Signaling, database, operator service, etc.	Charges for monopoly-type features (like signaling) should be subject to pricing regulation, and should be priced between TELRIC and FDC-7 (Part 69) levels. The Commission should also ensure that these services are unbundled and provided in such a way that competitive alternatives are possible.	